

Message Text

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PAGE 01 BRUSSE 00307 01 OF 02 141837Z

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ACTION TRSE-00

INFO OCT-01 EUR-12 NEA-09 ISO-00 EB-07 AEC-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01

H-01 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03

RSC-01 SAM-01 OES-03 SP-02 SS-15 STR-01 FRB-01 PA-01

PRS-01 USIA-06 IO-10 ACDA-05 /113 W

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R 141748Z JAN 75

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 2907

INFO AMEMBASSY JIDDA

AMEMBASSY KUWAIT

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E.O. 11652: N/A

TAGS: ENRG, EFIN, BE

SUBJECT: ENERGY: MEETING BETWEEN ASST TREASURY SECRETARY PARSKY
AND BELGIAN OFFICIALS

1. SUMMARY: ASST SECY OF TREASURY PARSKY MET WITH A GROUP OF
BELGIAN OFFICIALS ON JAN. 10 TO DISCUSS FINANCIAL ASPECTS
OF THE ENERGY PROBLEM. PARSKY BASED HIS PRESENTATION ON
HIS TALKS WITH PETROLEUM AND FINANCE OFFICIALS OF KUWAIT
AND SAUDI ARABIA, WHICH HE NOTED HE HAD JUST VISITED, AND
ON EGYPT, WITH WHICH HE IS ALSO FAMILIAR. THE BRUSSELS
MEETING WAS CHAIRED BY PAUL DENIS, CHIEF OF ENERGY SERVICE
IN BELGIAN FOREIGN MINISTRY, AND WAS ATTENDED BY OTHER
FOREIGN MINISTRY OFFICIALS, PLUS OFFICIALS FROM THE
MINISTRIES OF FINANCE AND ECONOMIC AFFAIRS AND THE BANQUE
NATIONALE DE BELGIQUE (BELGIAN CENTRAL BANK). AFTER PARSKY
MADE PRESENTATION ON OIL PRICES, RELATIONS WITH THE OIL
PRODUCERS, AND PROGRESS OF USG BILATERAL RELATIONS WITH
CERTAIN PRODUCERS, HE INVITED QUESTIONS FROM THE BELGIANS.

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PAGE 02 BRUSSE 00307 01 OF 02 141837Z

BELGIAN OFFICIALS MOST APPRECIATIVE OF PARSKY APPEARANCE AND

THEIR QUESTIONS PROVIDE INSIGHT INTO CONCERNS AND VIEWS OF KEY OFFICIALS. THE REMAINDER OF THIS MESSAGE IS A SUMMARY OF THOSE QUESTIONS AND PARSKY'S ANSWERS. (PARSKY DID NOT SEE TEXT OF THIS MESSAGE.)

2. IS USG COMMITTED TO BILATERAL APPROACHES ALONE IN DEALING WITH OIL PRODUCING COUNTRIES?

PARSKY REPLIED THAT THUS FAR WE HAVE UNDERTAKEN SEVERAL BILATERAL INITIATIVES, BUT THAT EXPANSION IN THE FUTURE TO A WIDER CONTEXT IS NOT EXCLUDED AS A POSSIBILITY. HE ADDED THAT BILATERALISM DOES NOT IMPLY EXCLUSIVE RELATIONSHIPS AND THAT SOME OF THE PROJECTS THE US HAS PROPOSED LEAVE ROOM FOR AND EVEN ENCOURAGE PARTICIPATION BY THIRD COUNTRIES.

3. WILL THE US ADDRESS ITSELF TO THE DEVELOPMENT NEEDS OF THE POORER COUNTRIES IN THE MIDDLE EAST, ENCOURAGING INVESTMENT IN THEM? AND NOT ONLY IN THE POORER COUNTRIES, BUT ALSO IN AREAS WHERE THERE ARE CONCENTRATIONS OF PALESTINIANS? BELGIAN OFFICIAL SAID MIDDLE EAST GOVTS HAD TOLD THEM THAT THEY WISHED DIRECT INVESTMENT IN COUNTRIES WITH CONCENTRATION OF PALESTINIANS.

PARSKY REPLIED THAT NO ONE RAISED THE PALESTINIAN QUESTION ON HIS RECENT TRIP, BUT THAT BOTH THE SAUDIS AND THE KUWAITIS EXPRESSED INTEREST IN SPREADING DEVELOPMENT TO THE LDCS OF THE REGION.

4. DID PARSKY GET AN IMPRESSION OF THE ATTITUDE OF THE PRODUCING COUNTRIES TO THE IDEA OF DIALOGUE WITH CONSUMERS AND WITH LDCS?

PARSKY SAID THE SUBJECT WAS NOT DISCUSSED DIRECTLY, BUT THAT IT IS NONETHELESS CLEAR THAT THE OPEC COUNTRIES ARE UNWILLING TO ATTEND A CONFERENCE WHERE OIL PRICES ARE THE ONLY SUBJECT. THEY WILL ALSO WANT TO DISCUSS ECONOMIC DEVELOPMENT AND INVESTMENT OUTSIDE OF THE OPEC COUNTRIES. ON THE LATTER SUBJECT, THE US MUST STILL DEVELOP A POLICY TOWARD ARAB INVESTMENT IN THE US, HOPEFULLY CONSISTENT WITH KEEPING CAPITAL MARKETS AS OPEN AS POSSIBLE, WITH APPROPRIATE SAFEGUARDS IN THE AREAS OF NATIONAL DEFENSE AND SECURITY.

5. WON'T THE INDUSTRIALIZED COUNTRIES BE ADDING A DEPENDENCE LIMITED OFFICIAL USE

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PAGE 03 BRUSSE 00307 01 OF 02 141837Z

ON THE OIL-PRODUCING COUNTRIES FOR INVESTMENT FUNDS TO THE DEPENDENCE ON THEM FOR THE PETROLEUM SUPPLIES THEMSELVES IF OPEC INVESTMENT IS ENCOURAGED?

PARSKY REPLIED THAT THE WORLD IS ALREADY HIGHLY INTERDEPENDENT AND THAT ARAB INVESTMENTS WILL BE MADE CAUTIOUSLY AND ON THE SAME TERMS AS THE INVESTMENTS OF OTHERS. IT MAY BE NECESSARY TO REQUIRE GREATER PUBLIC DISCLOSURE OF FOREIGN OWNERSHIP, AT LEAST IN THE US, BUT WE SHOULD AVOID

IMPOSING UNNECESSARY RESTRICTIONS. AFTER ALL, THE WORLD ENERGY INDUSTRY ALONE WILL NEED AN ESTIMATED DOLS 600-700 BILLION IN NEW INVESTMENT OVER THE NEXT FIFTEEN YEARS, AND WHERE WILL IT COME FROM IF NOT THE OPEC COUNTRIES?

6. WHY HAVEN'T OIL PRICES COME DOWN? IS IT BECAUSE OF CUTBACKS IN PRODUCTION, OR OVEROPTIMISM ABOUT THE ACHIEVEMENT OF REDUCTIONS IN CONSUMER DEMAND, OR OTHER FACTORS?

PARSKY ATTRIBUTED THE MAINTENANCE OF HIGH PRICES TO THE SOLIDARITY OF THE OPEC CARTEL. WHEREAS BEFORE 1973 THE PRICE HAD BEEN ARTIFICIALLY MAINTAINED AT TOO LOW A LEVEL, IT IS NOW ARTIFICIALLY MAINTAINED TOO HIGH. THE ADJUSTMENT IS SO DIFFICULT CHIEFLY BECAUSE OF THE RAPIDITY OF THE PRICE CHANGE. WHILE THERE IS SOME POTENTIAL FOR PRODUCTION CUTBACKS BY OPEC COUNTRIES, THAT POTENTIAL IS LIMITED, AND SOME COUNTRIES SUCH AS VENEZUELA CANNOT AFFORD TO DO IT AT ALL. WHAT WE WOULD LIKE TO DO IS RETURN OIL PRICES TO THE MARKETPLACE RATHER THAN TO POLITICAL DECISIONS. PRICES COULD THEN BE EXPECTED TO BEAR SOME CLOSER RELATION TO COSTS OF PRODUCTION. IN THE SAME CONTEXT, INDEXATION IS A FLAWED CONCEPT. IT IS TRUE THAT THE PRICES OF OTHER GOODS HAVE RISEN, SOME OF THEM SHARPLY, IN RECENT YEARS, BUT SUPPLY-DEMAND FACTORS HAVE BEEN RESPONSIBLE FOR THOSE INCREASES. SECRETARY KISSINGER'S RECENT REMARK THAT INDEXATION MIGHT BE "INTERESTING" WAS NOT INTENDED TO IMPLY THAT THE USG WOULD SUPPORT IT.

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PAGE 01 BRUSSE 00307 02 OF 02 141840Z

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RSC-01 SAM-01 OES-03 SP-02 SS-15 STR-01 FRB-01 PA-01

PRS-01 USIA-06 IO-10 ACDA-05 /113 W

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R 141748Z JAN 75

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LIMITED OFFICIAL USE SECTION 02 OF 02 BRUSSELS 00307

7. WILL ARAB INVESTMENT BE DIRECT OR THROUGH LOANS OR OTHER FINANCIAL MECHANISMS? AND TO THE EXTENT THAT IT IS THROUGH LOANS, CAN THE ARABS BE INFLUENCED TO PROVIDE GREATER CONCESSIONALITY IN THE TERMS OFFERED LDC BORROWERS? IF LOANS ARE NOT CONCESSIONAL WON'T THIS EXACERBATE THE LDC DEBT PROBLEM AND LEAD TO FURTHER DEBT RESCHEDULING?

PARSKY ANSWERED THAT IT IS CRITICAL THAT PRODUCING COUNTRIES MUST BE INDUCED TO MAKE DIRECT INVESTMENTS. THEY MUST SENSE THE IMPACT OF THE PRICE OF OIL ON OTHER ECONOMIES THAN THEIR OWN BY MAKING REAL COMMITMENTS TO THESE OTHER ECONOMIES. WE MUST AVOID GETTING OURSELVES INTO THE POSITION OF GUARANTEEING RETURNS AT HIGH PRICES. THUS, WHILE PARSKY AGREED WITH THE QUESTIONER THAT THERE HAS BEEN SOME TENDENCY TOWARD INCREASING CONCESSIONALITY ON THE PART OF OPEC LENDERS TO LDCS, WE PLACE OUR MAIN HOPE NOT IN EMPHASIZING THAT TENDENCY BUT IN ENCOURAGING A SHIFT FROM LOANS TO DIRECT INVESTMENT.

8. WHAT IS THE ATTITUDE OF THE US GOVERNMENT -- NOT RESTRICTED
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PAGE 02 BRUSSE 00307 02 OF 02 141840Z

TO THE EXECUTIVE BRANCH -- TOWARD THE INFLUX OF OIL CAPITAL?

PARSKY SAID THAT WE KNOW THAT WE MUST ATTRACT NEW INVESTMENT, AND THAT THE ADMINISTRATION IS TRYING TO MAKE THAT POINT. HE ACKNOWLEDGED THAT THE CONGRESS HAS NOT YET BEEN FULLY PERSUADED.

9. WILL INVESTMENT IN COUNTRIES LIKE EGYPT PROVE TO BE ECONOMICALLY FEASIBLE, GIVEN THEIR HIGH COST AND LOW PRODUCTIVITY?

PARSKY SAID THAT THE EGYPTIAN GOVERNMENT WAS AWARE OF THIS PROBLEM AND HAS EXPRESSED ITS INTENTION TO IMPROVE THE SITUATION. SOME SMALL STEPS HAVE ALREADY BEEN TAKEN ATTESTING TO THEIR GOOD INTENTIONS; E.G., WITH RESPECT TO LIMITATIONS ON THE PERCENTAGE OF EQUITY THAT MAY BE HELD BY FOREIGN INVESTORS, AND ON REPATRIATION OF PROFITS.

10. WHAT IS THE LIKELIHOOD THAT THERE WILL BE ANOTHER OIL EMBARGO?

PARSKY SAID THAT HE PERSONALLY DOUBTS THE LIKELIHOOD OF ONE IN THE NEAR TERM. IF AN EMBARGO WERE IMPOSED, PARSKY THOUGHT IT WOULD BE MORE DIFFICULT FOR THE OPEC COUNTRIES TO MAKE IT WORK THAN IN 1973. HE SAID THAT THE SUBJECT

HAD NOT BEEN RAISED WITH HIM BY THE SAUDIS OR KUWAITIS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MINISTERIAL MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BRUSSE00307
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750014-0367
From: BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750155/aaaabvwo.tel
Line Count: 225
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 09 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 APR 2003 by MartinML>; APPROVED <10 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ENERGY: MEETING BETWEEN ASST TREASURY SECRETARY PARSKY AND BELGIAN OFFICIALS
TAGS: ENRG, EFIN, BE, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006